The Research Monitor

June Quarter 2017

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Content

Shaw and Partners

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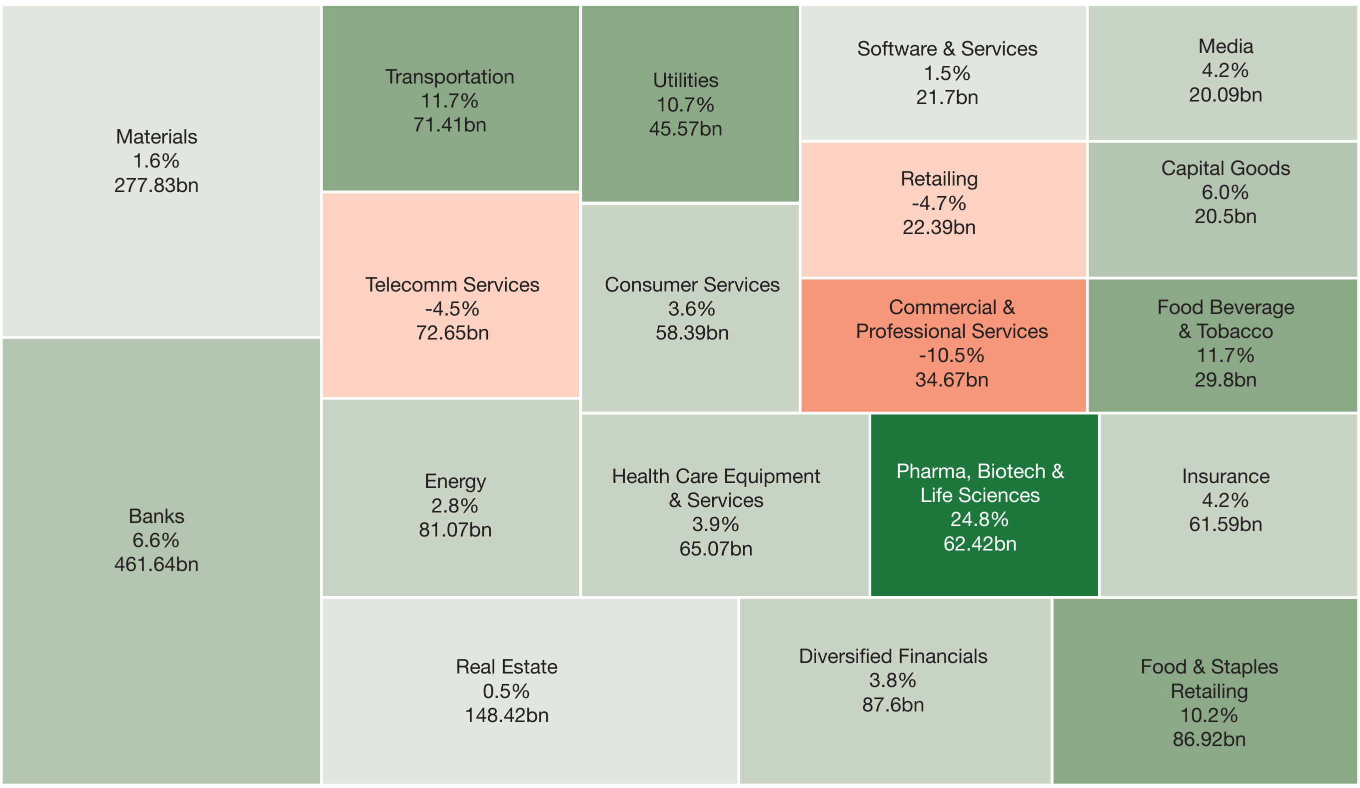
March Quarter 2017 Performance

The Australian Share Market, as measured by the S&P/ASX300 Index, rose by 3.4% on a price basis and 4.7% on an accumulation basis during the March Quarter, mirroring the gains of the previous two quarters.

The March quarter was characterised by two distinct periods – a game of two halves if you will. In the early part of the quarter, continued improvement in commodity prices and in the anticipation of further hikes in US interest rates, economically sensitive stocks, notably resources, performed well. The Materials sector, led by BHP, rose by 7.6% in the first six weeks of the quarter, before falling 7.0% in the last six weeks of the quarter to end up square. Financial Services stocks, on the other hand, fell 2.2% in the first six weeks of the quarter and then rose 7.0% in the following period to end up 5.7% for the quarter.

At a sector level, Pharmaceuticals, Biotech and Life Sciences – led by market heavyweight CSL – rose 24.8%, was the best performer. Transport, led by Transurban (TCL) was the next best performer up 11.8%. A key reason for the recovery in defensive stocks such as CSL and TCL was the sharp sell-off in long term bonds that occurred in the December quarter did not continue and many stocks recovered from over-sold positions.

The weakest performers of the quarter were Industrial companies who's operations are being disrupted by supply-chain dynamics and competitive forces. Brambles (BXB) led the Commercial & Professional Services sector 11.8% lower after it revealed a sharp fall in pallet utilisation in its key North American markets. Similarly, Harvey Norman (HVN) lead the Retailing sector 6.1% lower as fears regarding the impact of Amazon's entry into the Australian market weighed on the stock. Finally Telstra (TLS) fell 9% dragging the Telecommunications sector 4.5% lower as the NBN churn event causes significant price discounting.



Heat map legend: Size of box: market cap of sector. Colour of box: Quarterly performance (green positive, red negative).
Source: Shaw and Partners

Meet the Research Team

Shaw and Partners provides coverage on more than 100 ASX listed companies which are predominantly within the S&P/ASX200 benchmark index. A team of six research analysts cover companies across Banks, Insurance, Telecoms, Diversified Financials, Infrastructure, Transport, Utilities, Technology & Online, Contractors, Retailers, Life Sciences, Travel, Metals & Mining and Real Estate sectors.

Martin Crabb, Head of Research

Equity Strategy, Diversified Financials

Martin joined Shaw in April 2011 as Head of Research. Martin is responsible for overall management of the research team as well as equity strategy and coverage of Diversified Financial Services companies. Prior to joining Shaw, Martin was an Executive Director with Macquarie Group where he worked for over 20 years in roles spanning institutional stockbroking, wealth management, research and portfolio management. Martin holds a Bachelor of Arts in Economics and Mathematics from the University of Melbourne, with postgraduate studies in Applied Finance. Martin is a Responsible Executive (ASIC).

Coverage: BLA, EQT, FID, HFA, HGG, HUB, IFL, KAM, MFG, MGP, OFX, PPT, XIP.

Danny Younis, Senior Analyst

Technology / Developers & Contractors / Retailers

Danny joined Shaw and Partners in April 2010 and covers the Industrials sector with specific focus on Technology, Contractors / Mining Services, and Retailers. Danny has had over 15 years' experience in financial markets and stockbroking and commenced his career with CCZ Statton Equities and worked previously with Aegis Equities, Westpac, Commonwealth Bank and StoneBridge Group as Head of Research. Danny graduated with a Bachelor of Science from the University of Sydney with majors in Biology (Genetics) and the History & Philosophy of Science. Danny has also completed FINSIA's Graduate Diploma of Applied Finance and Investment (GDipAppFin).

Coverage: ALQ, CAR, CGL, CIM, DOW, ISD, NCK, ORI, OVH, PPL, REA, SEK, SSG, WES, WOR, WOW, ZML.

Darren Vincent, Senior Analyst

Commercial Services, Life Sciences, Travel & Leisure

Darren joined Shaw and Partners in September 2012 as a Small Company specialist. Darren has worked in equity markets for over 20 years, having previously worked at Credit Suisse and also with BNP Paribas and ANZ Stockbroking. During that time Darren has covered a wide variety of small industrial companies and has been recognised by his clients for his work, winning the 2010 East Coles Small Company Analyst of the Year and placing second in the 2011 Wall Street Journal Asia's Best Analysts Awards (Industrial Goods & Services). Darren holds a Bachelor of Economics from the Australian National University.

Coverage: AHX, BLG, BNO, BRG, CV1, EHE, FLT, GUD, GXL, MDC, NAN, NVL, OSP, REG, WEB.

David Spotswood, Senior Analyst

Financial Services, Telecommunications

David joined Shaw in February 2012 as Senior Analyst covering the Banks, Diversified Financials, Insurance, Media and Telecommunications companies. David has over 20 years' experience in the financial services industry. David previously worked as Research Officer and Economist with the Commonwealth Treasury & Department of Finance, Research Associate with John A. Nolan & Associates, Senior Investment Manager (Australian Equities) with HSBC Asset Management, Investment Manager (Australian equities) Credit Suisse Asset Management, Australian Equities Manager with Warakirri Asset Management and Institutional Research Adviser with Select Equities. David holds a Bachelor of Economics from Flinders University and Master of Commerce with 1st Class Honours from the University of Melbourne.

Coverage: AMP, ANZ, ASX, AYS, BEN, BOQ, CBA, CGF, CYB, IAG, MPL, MQG, MYS, NAB, NHF, QBE, SDF, SUN, TLS, TPM, VOC, WBC.

Peter O'Connor, Senior Analyst

Metals and Mining

Peter joined Shaw and Partners in January 2015 as Senior Analyst. Peter is an experienced equities analyst specialising in Metals and Mining sectors. Peter was most recently Managing Director, Head of Asian Metals & Mining Team, Co-head of Global team - Equities Research at Merrill Lynch/Bank of America. Prior to this Peter held positions as Head of Australian Metals and Mining at Deutsche Bank, Head of Global Metals and Mining at Credit Suisse and Equities Research, Metals and Mining at Macquarie Bank. Prior to his time as an equities research analyst, Peter held operational roles with Rio Tinto for five years and BHP Billiton for five years. Peter has a Bachelor of Engineering (Mining) from the University of New South Wales (First Class Honours and the University Medal).

Coverage: AWC, BHP, EVN, FMG, IGO, ILU, NCM, NST, OZL, RIO, S32, SFR, WHC, WSA.

Peter Zuk, Senior Analyst

Real Estate

Peter joined Shaw and Partners in October 2015 as Senior Analyst. Peter has over 17 years of real estate industry experience that includes roles within financial markets, direct industry and advisory. Previously, Peter worked as an equities analyst at Goldman Sachs where he covered the Real Estate sector. Prior to this, he held roles at Goodman Group and KPMG where he focused on REITs, developers and contractors. Peter has a Masters of Commerce Degree from the University of New South Wales and is also a Chartered Accountant.

Coverage: ABP, BWP, CMA, CNI, DXS, FET, GMG, GPT, GTY, LLC, MGR, NSR, SCG, SGP, VCX.

Large Cap Model Portfolio

We make a few minor changes to our model portfolio in light of our view that there is a little bit more juice in the tank, but we are getting toward the end of our journey. The impact of reflationary policies is leading to a cyclical uptick in world growth and interest rates and we ride the wave for a little longer.

The three components of the Price to Earnings (PE) ratio of the Australian share market could be under pressure in the medium term, but the upgrade cycle in resources and the typical bank share run-up into results and dividends sees us draining the last few drops from the bottle.

The risk-free rate - the fundamental building block of pricing of all financial assets – is likely to have seen its historical low point and will rise as inflationary pressures build. This will keep a lid on share prices.

China – the engine of world growth and consumer of vast quantities of raw materials – is likely to slow in 2018, maybe even materially as imbalances from the 2015/2016 stimulus are beginning to cause problems. The resources upgrade cycle – which still continues as prices defy gravity – will turn negative next year.

Risk – brought about by a potential imbalance in world trade as the US President seeks better trade terms with other nations – is likely to rise. This will also maintain pressure on prices.

A number of economic scenarios – particularly regarding a faster than expected pick-up in US wage inflation and a faster rate of interest rate hikes by the US Federal Reserve – could see the Australian dollar move sharply lower. It makes sense to us to add global currency exposure to the portfolio so we add to our QBE Insurance (QBE) position, taking it to 5.4% of the portfolio and add Magellan Financial Group (MFG) at 3%. We fund this from Perpetual (PPT) which has run hard and Telstra (TLS) which looks increasingly challenged from intense competition. NAB looks expensive relative to ANZ in the banks so we re-weight 2% here.

Additions		Reductions	
ANZ	2.00	NAB	(2.00)
MFG	3.05	PPT	(2.15)
QBE	1.00	TLS	(1.90)
	6.05		**(6.05)**

Model Portfolio @ 31 March 2017		
BHP	BHP Billiton	8.9%
ANZ	ANZ Banking Group	8.4%
CBA	Commonwealth Bank	7.6%
WBC	Westpac Banking Corporation	6.9%
NAB	National Australia Bank	6.4%
QBE	QBE Insurance	5.4%
RIO	Rio Tinto	4.8%
OSH	Oil Search	4.7%
SUN	Suncorp Group	4.5%
MQG	Macquarie Group	4.2%
CYB	Clydesdale Bank	3.8%
REA	REA Group	3.5%
NST	Northern Star Resources	3.2%
WOW	Woolworths	3.2%
CGF	Challenger	3.2%
LLC	Lendlease Group	3.2%
MGR	Mirvac Group	3.2%
MFG	Magellan Financial Group	3.1%
BOQ	Bank of Queensland	3.0%
ILU	Iluka Resources	2.7%
GMG	Goodman Group	2.1%
VCX	Vicinity Centres	2.1%
FLT	Flight Centre Travel Group	1.9%
	Total	**100.0%**

Large Cap Model Portfolio now available on Shaw Managed Accounts (see page 18)

Recommendation

We are reminded of the analogy of picking up pennies in front of a steamroller, but think there is merit in staying overweight resources (earnings upgrade cycle and Chinese stimulus playing out) and banks (earnings upgrades and typical run-up into results and dividends) a little longer. We remain of the view that an index position in Australian Shares is forecast to provide a total return of less than 5%, a far cry from the 20% we have returned in the past year, and that investors must actively stock-pick to make decent returns in a rising risk environment.

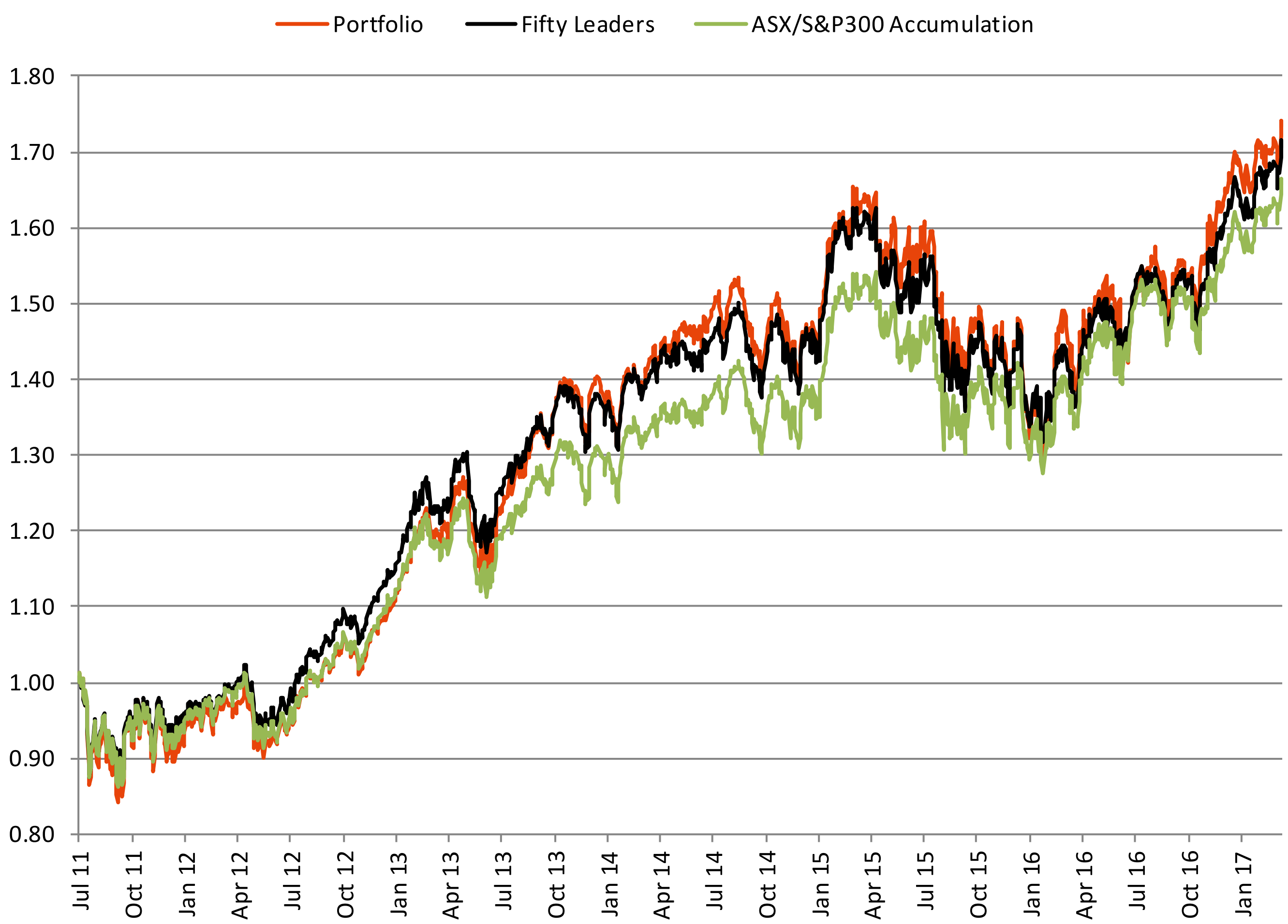
To obtain the latest Shaw Model Portfolio report, please contact your Shaw adviser.

Portfolio Attribution

March 2017 surprised many investors by rising over 3% despite being flat for the first three weeks. A flurry of buying in Australian bank stocks in the last week of the quarter saw the index surge over 200 points. A unique combination of better than expected economic statistics in China and the United States, less progress on President Trump's Obamacare repeal/tax cut agenda, rallying bond prices and firm commodities saw a third of stocks in the S&P/ASX100 index deliver more than 5% returns and 10% many stocks deliver double digit returns over March.

All sectors except Retailing (dragged down by Harvey Norman (HVN)) and Capital Goods (Downer) (DOW)) were positive in March.

Portfolio Performance (Accumulation Basis)



Source: Shaw and Partners

Hybrid Income Model Portfolio

The Income Strategies team consists of specialised strategists dedicated to interpreting the debt and preference share markets. With a focus on structuring and managing listed and hybrid portfolios and blending with equities, the team aims to maximise income, whilst simultaneously minimising the risk of drawdown/permanent loss of capital, providing clients with thoughtful analysis and investment opportunities.

Cameron Duncan
Co-Head, Income Strategies

Cameron has 30 years experience across financial markets, including over 16 years at Macquarie Group in listed debt and hybrid advisory, syndication, proprietary trading and portfolio risk management. Cameron has a Bachelor of Economics degree from the University of Sydney and has completed the Diploma of Financial Planning & RG146.

Steve Anagnos
Co-Head, Income Strategies

Steve has 25 years experience across financial markets and investment management in a range of Senior roles at Citigroup, Bank of America Merrill Lynch, CBA and Strategic Capital Management. Steve's focus has been in designing and implementing portfolio strategies using listed debt, hybrids and equity derivatives. Steve has a Bachelor of Economics degree and Master of Applied Finance degree from Macquarie University.

Investment Strategy

The Shaw ASX Hybrid Income Portfolio aims to provide investors with exposure to a highly transparent portfolio of ASX listed debt and preference securities that offer diversification benefits to both Australian Equities and cash/term deposit investor's allocations.

There is a growing universe of listed assets spanning Senior Debt, Subordinated Debt, Convertible Preference Shares, Convertible Notes and Income Securities (debt and equity). While these "Hybrid" securities each have their own characteristics, research and subsequent implementation and monitoring allows for strategies to extract risk adjusted return from this sector that aims to enhance a core portfolio of Australian Equities and cash.

Investment Objectives

The objective of the Shaw Hybrid Income Portfolio is to provide a sustainable level of income whilst seeking to preserve capital. The target total portfolio return (gross) of the portfolio is 3% above the RBA cash rate. This return will be generated from a combination of cash (interest payments and dividends), franking credits and capital growth (realised and unrealised) from an active portfolio strategy.

Risk tolerance: The portfolio aims to limit the risk of capital loss through security diversification and active portfolio management. It is suitable for investors that have a 3 year + investment horizon that can tolerate secondary market pricing and liquidity risks through the life of the securities, up to the respective first call/maturity date of each security.

Hybrid Income Model Portfolio now available on Shaw Managed Accounts (see page 18)

Portfolio Holdings @ 31 March 2017 – Top 5		
ASX Code	**Issuer**	**Security Type**
WBCPF	Westpac	Capital Note III
ANZPG	ANZ Bank	Capital Note IV
WBCPG	Westpac Bank	Capital Note IV
NABHA	Nat Aust Bank	Income Sec
NABPC	Nat Aust Bank	Capital Note

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	5.2%
Expected Gross Running Yield (including franking)	5.4%
Expected Cash Running Yield (not including franking)	4.0%
Expected Years to Maturity	5.4
Number of Securities	20
Floating Rate exposure	96%
Fixed Rate Exposure	0%

Markets Returns

Return	1 Month	3 Month	1 Year
ASX200 Accumulation	3.32%	4.81%	20.50%
RBA Cash Rate	0.13%	0.38%	1.64%

Portfolio Performance

Return	1 Month	3 Month	1 Year
Income Return (Gross)	1.20%	1.50%	5.50%
Capital Return	0.04%	0.06%	5.20%
Total Portfolio Return (Gross)	1.24%	1.56%	10.70%
Portfolio Return Objective	0.40%	1.10%	4.70%
Excess Return v Objective	0.84%	0.46%	6.00%

Portfolio Highlights

- During the month of March, the portfolio generated a Total Return (Gross) of +1.24%. A total of 16 securities traded ex-distribution during the month, resulting in a gross income return for the month of 1.20% and 1.50% for the quarter.
- The Total portfolio return has exceeded its return objectives based on a period of 1 month, 3 months, 12 months and since inception. The total portfolio return for the quarter was 1.56%, higher than its return objective, 10.70% for the 12 month period and 8.63% pa since inception (Sep 2015).
- The Total Income Return (Gross) was 1.20% for the month and 1.56% for the quarter, whilst the commensurate income return since inception (Sep 2015) is +6.0% p.a.
- The main contributors to performance during the month were NABHA (+4.63%), MBLPA (+1.94%), and MQGPB (+1.91%).
- The three largest income contributors were MQGPB, WBCPC and ANZPG during the month.
- During the month we added CBA PERLS IX and Challenger Capital Notes. In addition to using some of the cash the portfolio held we reduced ANZPG and MQGPB.
- The portfolio continues to enjoy favourable income returns in a period where large new issues are heavily bid for and supply is scarce. We continue to see re-allocation from Equity based portfolios looking for a lower risk alternative, and from cash allocations given Term Deposits rates of 3.00% and lower.

Our Preferred Stocks

Centuria Capital Group (CNI)

Centuria Capital (CNI) is an Australian diversified funds management company. CNI markets and manages friendly society investment bonds, property investment funds, general insurance through agency arrangement, mortgage management and property investment and manages Over Fifty Guardian Friendly Society Limited. CNI comprises two divisions: Property Funds and Financial Services.

Clydesdale Bank (CYB)

CYBG Group (CYB) is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. CYBG Group offers through its strong local community brands, Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services.

GUD Holdings (GUD)

GUD Holdings (GUD) operates in the manufacture and importation, distribution and sale of cleaning products, household appliances, warehouse racking, industrial storage solutions, office storage products, automotive products, locking devices, pumps, pool and spa systems, and water pressure systems, with operations in Australia, New Zealand, France, Spain, China, Malaysia and Hong Kong.

Oil Search (OSH)

Oil Search (OSH) engages in the business of oil and gas exploration. It operates through the following segments: PNG Oil and Gas; PNG LNG Project; Middle East and North Africa Oil and Gas; and Other.

OZ Minerals (OZL)

OZ Minerals (OZL) is an Australian based mining company with a focus on copper. OZL owns and operates the Prominent copper-gold mine and the Carrapateena copper-gold mines in South Australia.

Pureprofile (PPL)

Pureprofile (PPL) engages in providing online marketing solutions. Its portfolio includes: market research, performance marketing, programmatic trading and publisher licensing. The company's products and services include conducting research and brand awareness, buying and re-selling advertising inventory, platform usage and surveys and other activities.

QBE Insurance Group (QBE)

QBE Insurance Group (QBE) is a general insurance and reinsurance company. Its underwrites commercial and personal line classes of business, including property, motor and motor casualty, agriculture and bloodstock, liability, marine, energy and aviation, workers compensation, financial and credit, professional indemnity, accident and health, and others. It operates its business through the following segments: North American Operations, European Operations, Australian and New Zealand Operations, Emerging Markets, and Equator.

Vicinity Centres (VCX)

Vicinity Centres (VCX, formerly Federation Centres) is a vertically integrated Australian Real Estate Trust specialising in the ownership and management of 102 Australian shopping centres. It provides a full suite of property services including property investment, retail development, property management, leasing and fund administration. As at 30 June 2016, the Company has over $14.6bn in retail assets under management.

Western Areas (WSA)

Western Areas Limited (WSA, formerly Western Areas NL) is an Australian-based nickel sulphide explorer and producer. The core asset is the 100% owned Forrestania Nickel Operation which comprises two operating mines, producing approx 25,000tpa nickel in ore. WSA also has interest in projects overseas through investments in Mustang Minerals (Canada) and FinnAust Mining (Finland), and 100% interest in Bioheap Ltd, a patented bacterial leaching technology.

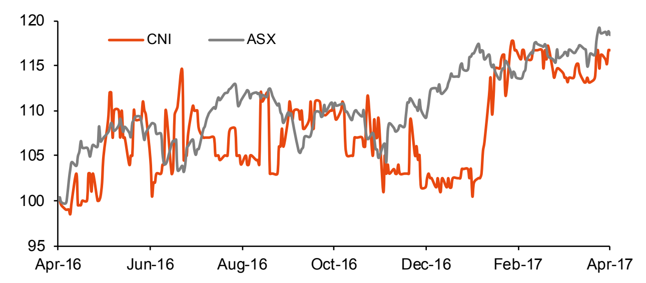
Xenith IP Group (XIP)

Xenith IP Group (XIP) is a holding company, which engages in the provision of intellectual property (IP) services and advice. Its services include identification, registration, management, commercialisation, and enforcement of IP rights for a spectrum of clients in Australia, New Zealand, and the rest of the world.

Centuria Capital Group (CNI)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 11 April 2017)	$1.14
Target Price	$1.51
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(1.1%)	9.8%	(5.7%)

* Relative Performance is compared to the S&P/ASX 200 Index

Inaugural Corporate Note Issuance Provides CNI Greater Capital Firepower

- In the first week of April 2017, Centuria Capital (CNI) announced: (1) the issuance of a $100m corporate note; (2) the launch of a new $106m unlisted property fund; and (3) upgraded FY17 EPS guidance by 3-5% to 10.2-10.4¢, from 9.9¢.
- Proceeds of the corporate note were used to repay a $50m vendor loan related to the acquisition of the 360 Capital funds management platform. The balance of proceeds will be used to either acquire seed assets (for the launch of new unlisted funds) and/or co-invest in CNI's listed managed funds platform.
- The upsize of CNI's inaugural corporate note issue provides it with greater capital firepower to pursue its growth strategy, and highlights management's confidence in its ability to deploy this capital at a healthy return over its cost of capital. Over time CNI will also need to raise further equity as/when its listed CIP, CMA/CUA managed funds grow - but this is part of its well-known strategy.
- We remain attracted to CNI's EPS growth profile, and continue to see the stock as undervalued by the market.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	13.7	10.3	10.8
Dividends cps	5.3	7.5	8.1
PE x	7.7	11.0	10.5
Yield %	5.0	6.6	7.1
Franking %	100	40	40

Clydesdale Bank (CYB)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$4.76
Target Price	$5.30
Analyst	David Spotswood

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	6.0%	(2.0%)	(0.2%)

* Relative Performance is compared to the S&P/ASX 200 Index

Bottom Up Story + Marco Variables Could Provide Optionality

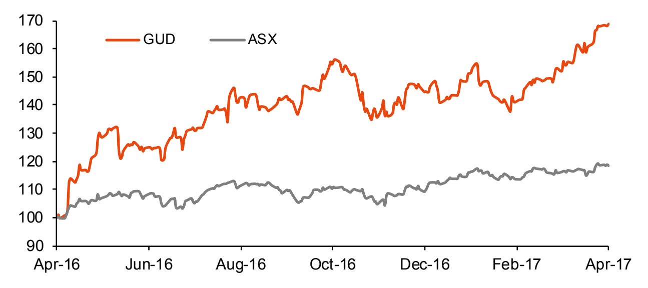
- Cost Out: Clydesdale Bank (CYB) is targeting 5% cost reduction in 2017 and a 55%-58% cost to income ratio in 2019 from current levels of 73%.
- Brexit: Article 50 has been triggered in March and it will take minimum 2 years to exit. The UK will need to try and negotiate a new trade deal with the EU. The extent to which the EU allows a favourable trading agreement, will determine the impact on the UK economy – Hard vs Soft Brexit. 55% of UK exports go to the EU. The UK economy is travelling fine at the moment.
- Capital: CYB are moving towards advanced accreditation. We expect this could happen in CY19 and free up ~500m of capital or ~$1.00 per share.
- Interest Rates: CYB have £10.7bn in current accounts that won't reprice if interest rates go up on a £38bn book, so if interest rates go up 1% this will add £107m in revenue and £80m to profit. We are forecasting profit of £185m in FY17 and £241m in FY18 so that would be ~43% to 2017 earnings and ~33% to 2018 earnings.
- FY19 Target reconfirmed: NIM broadly stable on FY15, double digit ROTE, CTI <55%-58%, asset growth mid-single digit.

Forecasts			
YE Sep (GBP)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	16.2	20.9	27.3
Dividends cps	0.0	4.2	10.9
PE x	16.0	13.7	10.5
Yield %	0.0	1.5	3.8
Franking %	0	0	0

GUD Holdings (GUD)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 11 April 2017)	$11.96
Target Price	$12.50
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	6.8%	11.3%	50.3%

* Relative Performance is compared to the S&P/ASX 200 Index

Further Divestments (& Acquisitions) = a More Reliable, Non-discretionary, Growth Profile

- GUDs transformation. We are expecting GUD to be transformed into a pure aftermarket auto parts play, which will have a non-discretionary, non-cyclical, non-price sensitive product offering unmatched by competitors and difficult to reproduce because of the long tail of SKUs required to service the unique makes and models on Australian roads.
- The benefits are clearly evident. Automotive parts are expected to deliver reliable growth. GUDs auto sales have grown consistently for 30 years with the same drivers set to continue delivering growth over future years. Margins are another reason for liking the expansion of GUDs auto profile. GUDs auto businesses have delivered 30% EBITDA margins for nearly a decade.
- Risks are manageable. The key risks to the restructuring and our valuation are: i) the multiples at which divestments and acquisitions can be achieved, and ii) the sustainability of longer term (5 year +) Automotive margins. A more significant factor that falls out of our modelling is the quantum of investment GUD can deploy into new auto acquisitions; the more the better and with an estimated $160mn of divestments coming, $140mn of unused debt facility and the option to turn to equity, we see GUD growing by acquisition of after-market auto parts suppliers for some time.

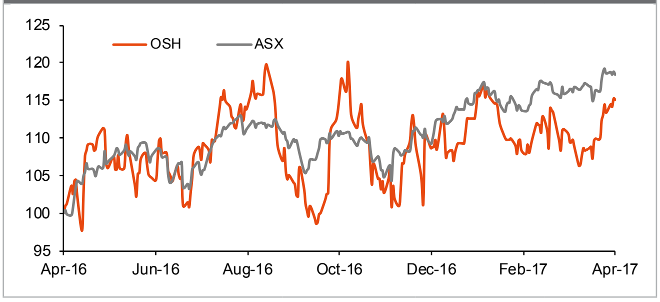
Forecasts

YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	51.2	61.9	73.5
Dividends cps	43.0	46.4	53.3
PE x	17.8	19.3	16.3
Yield %	4.7	3.9	4.5
Franking %	100	100	100

Oil Search (OSH)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$7.49
Target Price	$7.80
Analyst	Stuart Baker

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.7%	(0.7%)	(3.7%)

* Relative Performance is compared to the S&P/ASX 200 Index

World Class Partners, World Class Assets

- Oil Search (OSH) is the lowest cash-cost producer of ASX-listed energy companies and cash-flow generative at the current oil prices, underpinned by the strong operational and cost performance of the PNG LNG project which entered production in 2014.
- Surplus cash-flows are being re-invested in PNG gas exploration, appraisal and reserves growth over the next 1-2 years, with the objective of growing LNG production by 50-100%, through the construction of a further 3 LNG trains adjacent to the existing two. Simultaneously, debt is being repaid and the balance sheet is being prepared to fund the expenditures required later this decade.
- Supporting this endeavour are OSH's partners, which are global leaders in LNG, namely Exxon and Total. Both have invested substantial capital in PNG alongside OSH and share the same strategic objectives. OSH's long life, low cost production, plus large future growth make it unique among peers.

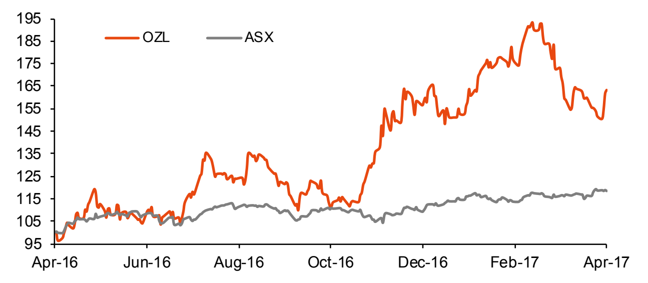
Forecasts

YE 31 Dec (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	7.0	15.4	19.8
Dividends cps (AUD)	4.7	10.1	13.2
PE x	74.2	36.6	28.3
Yield %	0.7	1.4	1.8
Franking %	0	0	0

OZ Minerals (OZL)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$8.38
Target Price	$10.40
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(0.3%)	(3.0%)	48.5

* Relative Performance is compared to the S&P/ASX 200 Index

Significant Growth And Mine Life Extension Options + Cash Rich

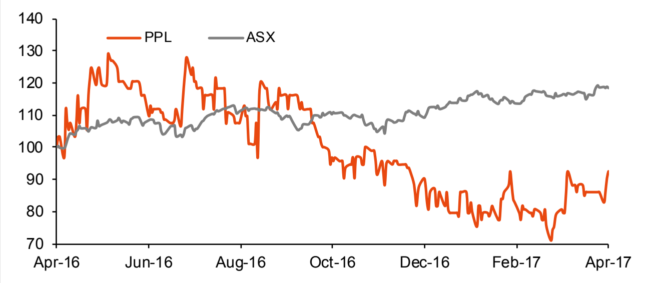
- Longevity: Decades not years is how one should view the OZ Minerals (OZL) investment thesis although until recently (2015) OZL was considered a short life company (~ early 2020's). We expect that OZL will be a successful company for decades to come underpinned by significant resource potential in South Australia, proximate to OZL's current/future operations. Importantly, longer life delivers more tail end value which in turns provides for future share price upside.
- Growth: Firstly growth is via the extension of mine life at the existing copper operation, Prominent Hill, recent extended by 4 years to 2028 and possibly longer. Secondly, the production scale and expected mine life of the current development project, Carrapateena, will both likely be higher by 5-10% and >10% respectively. Beyond the existing asset base, OZL is well placed to continue successful operations in South Australia for many decades. Next Carrapateena catalyst – Board approval/briefing on 28 April.
- FCF optionality: OZL is the most cashed up copper company in the world and is also the second most cashed up major mining company (top 25) in Australia. This current cash pile (~$600m) is adequate to cover all current growth plans – Prominent Hill and Carrapateena – allow for further capital management – share buy back currently underway – and maintain a modest dividend payout. Potentially there is even room for capital management initiatives in the medium term.

Forecasts			
YE 31 Dec (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	46.0	37.1	38.7
Dividends cps	20.0	16.0	10.0
PE x	8.8	22.6	21.7
Yield %	4.9	1.9	1.2
Franking %	0	50	100

Pureprofile (PPL)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$0.43
Target Price	$0.80
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(2.4%)	10.6%	(30.2%)

* Relative Performance is compared to the S&P/ASX 200 Index

Near Term Catalysts Can Transform The Earnings Profile

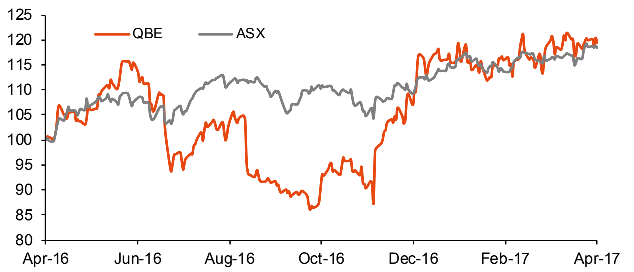
- Pureprofile (PPL) has three business divisions all organically growing at double digits. Data and Insights extracts highly targeted information individuals via surveys and publisher alliances. It also has a programmatic advertising desk that allows PPL to leverage insights to buy and sell ads online in the fastest growing advertising segment globally. PPL also delivers leads to brands to increase sales opportunities on an uncapped advertising budget.
- PPL works with some of the biggest brands and publishers globally to profile and target audiences. PPL's SaaS platform has been licenced by News Corp and Unilever which we consider to be validation in its technology to profile their audiences.
- PPL has catalysts to support significant growth. A commercialisation of its SaaS platform with News Corp in the United States is the key opportunity for PPL to transform its earnings profile. In our view, this would also increase confidence to investors the Data & Insights they extract for publishers and brands is valuable. We see further opportunities for PPL to monetise its SaaS platform by signing up licence agreements direct with brands as it just announced it had done with Unilever. Increasing PPL's database will set the foundation for leveraging advertising budgets from agencies and brands.
- PPL is operational cash flow positive and profitable, which makes it a compelling investment given it trades below market multiples.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	1.7	3.1	4.4
Dividends cps	0.0	0.0	0.0
PE x	34.1	13.7	9.7
Yield %	0.0	0.0	0.0
Franking %	100	100	100

QBE Insurance Group (QBE)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$12.93
Target Price	$14.74
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(0.9%)	1.4%	(0.2%)

* Relative Performance is compared to the S&P/ASX 200 Index

Key Drivers All Turning Positive

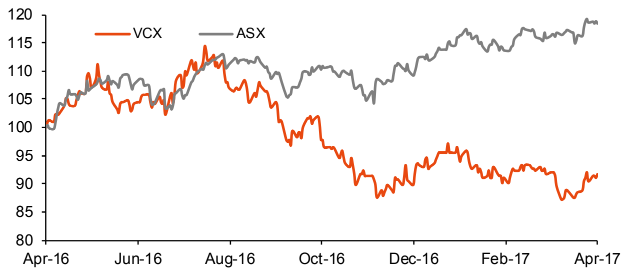
- US Commercial Premium Rates +1%: According to data from MarketScout an insurance distribution and underwriting business headquarted in Dallas. This is significant, and the first time US commercial rates have lifted in years.
- Interest Rates: QBE have a $22bn bond portfolio, 1% on interest rates is +20% to FY17 earnings or +16% to FY18 earnings.
- Bottom Up: Management are doing a good job in what has been a challenging operating environment with the company targeting $300m cost savings by 2018 and suring up its balance sheet with reserve releases for the past 5 halves after several years of top ups.
- FY17 Guidance: Flat GWP, NEP +$350m due to reinsurance savings, 2.5%-3.0% investment returns and COR of 93.5%-95.0%.
- 2018 Targets: COR 93%, $300m cost savings, 13%-15% ROTE.

Forecasts			
YE 31 Dec (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	65.1	60.5	83.8
Dividends cps	38.6	39.4	45.0
PE x	13.8	16.0	11.6
Yield %	4.3	4.1	4.6
Franking %	50	50	50

Vicinity Centres (VCX)

Recommendation	BUY
Risk	LOW
Share Price (as at 11 April 2017)	$2.91
Target Price	$3.05
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	1.5%	(5.3%)	(28.0%)

* Relative Performance is compared to the S&P/ASX 200 Index

A "Defensive" REIT With Low Gearing and an Attractive Yield

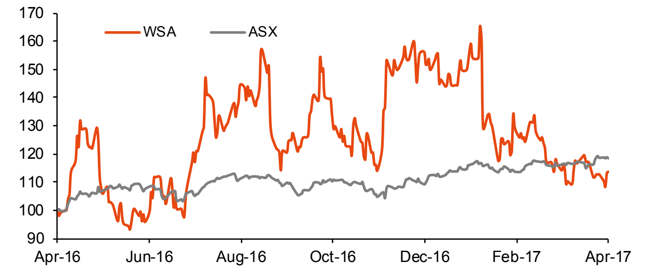
- We upgraded Vicinity Centres (VCX) to a BUY in late March, when it was trading at $2.75 – which represented a <1% premium to its net tangible asset backing of $2.73.
- While the share price has rallied since then, we still see value in VCX as the market still is not ascribing much value to its funds management business ($9.6b of 3rd party funds) or its ~$3.0b development pipeline.
- While we acknowledge the challenging environment for many Australian retailers, including the increasing threat from online retailers, we do not believe that good quality retail malls are structurally obsolete. We think VCX has a good quality portfolio and a management team that is capable of adjusting its tenant mix to adapt to changing consumer preferences or lifestyle choices.
- We see VCX as a REIT that offers an attractive yield, with some capital upside as well. It has a strong balance sheet with gearing of 24% and an average debt duration of 4.8 years. As such, it is in a strong capital position and we see its short term refinance risk as low.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	18.0	17.6	18.7
Dividends cps	17.7	17.5	18.5
PE x	18.5	16.6	15.6
Yield %	5.3	6.0	6.3
Franking %	0	0	0

Western Areas (WSA)

Recommendation	BUY
Risk	HIGH
Share Price (as at 11 April 2017)	$2.33
Target Price	$3.90
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.7%	(28.9%)	(5.0%)

* Relative Performance is compared to the S&P/ASX 200 Index

Pure Play Nickel Leverage With Undervalued Growth Option

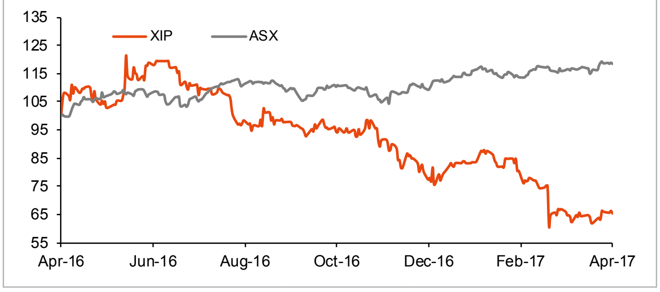
- Western Areas (WSA) is the largest listed pure play nickel producer in Australia with current production of ~25ktpa nickel and mine life of ~12 years. Growth options could add to this production and mine life profile.
- Nickel market deficit forecast for in 2017 even with some unpredictable supply responses - Indonesia and Philippines. Interestingly, Philippine curtailments are to a large extent offsetting new low grade Indonesian supply (announced Jan 2017). In 2016 a significant proportion of the global nickel cost curve was loss making triggering closures and more rational behaviour with price responding accordingly. Moreover, improving global demand has started to make a dent in inventory levels as well.
- Sensible capital allocation: WSA is free cashflow positive at prices well below the current price (US$4.60/lb) - following some focussed cost/capital out in 2016 - and has no debt (net cash). Moreover, WSA acquired a major growth option in 2016 – the mothballed Cosmos nickel operations (ex-Glencore) – for just $24m, a significant discount to replacement value (~70-90% discount). This asset is well placed to delivered meaningful returns on invested capital over the medium term.
- Cosmos nickel = Valuation upside. Cosmos accounts for ~10% of our NPV valuation (~70c). As the project is moved forward and derisked we expect the market to close the valuation discount applied – we estimate currently this divide could be

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	(10.9)	0.1	7.3
Dividends cps	0.0	0.0	2.9
PE x	(19.7)	nm	32.0
Yield %	0.0	0.0	1.3
Franking %	100	100	100

Xenith IP Group (XIP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 11 April 2017)	$2.08
Target Price	$3.60
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.6%	(29.1%)	(65.8%)

* Relative Performance is compared to the S&P/ASX 200 Index

Margin Growth To Come From Acquisition Synergies

- Xenith IP (XIP) has recently acquired the businesses of Watermark and Griffith Hack, making it the second largest player in the Australian Patent Attorney industry after market leader IPH.
- These acquisitions provide not only cost synergy opportunities, but importantly provide XIP clients (now over 11,000) with a broader range of services and a greater geographic reach including the capability of lodging patents in many jurisdictions across South East Asia as a "one stop shop".
- There was scant detail about the newly acquired businesses in the last profit result which lead the market to assume a "no news is bad news" approach and mark the shares down heavily, creating an excellent buying opportunity in our view.
- The significant amount of new equity raised in the sector over the past few years as well as the release of escrow shares in IPH has caused some indigestion amongst Australian small cap managers. This has caused all three listed patent attorney firms (IPH, QIP and XIP) to underperform, but we think this de-rating has gone too far and taken too long. Whilst we might need to wait until August's full year result presentation for an update regarding the recently acquired businesses, any positive news should see material upside to the share price.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	18.2	18.4	20.7
Dividends cps	7.0	3.5	11.2
PE x	21.8	11.3	10.1
Yield %	1.8	1.7	5.4
Franking %	100	100	100

Recommendation Definitions

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
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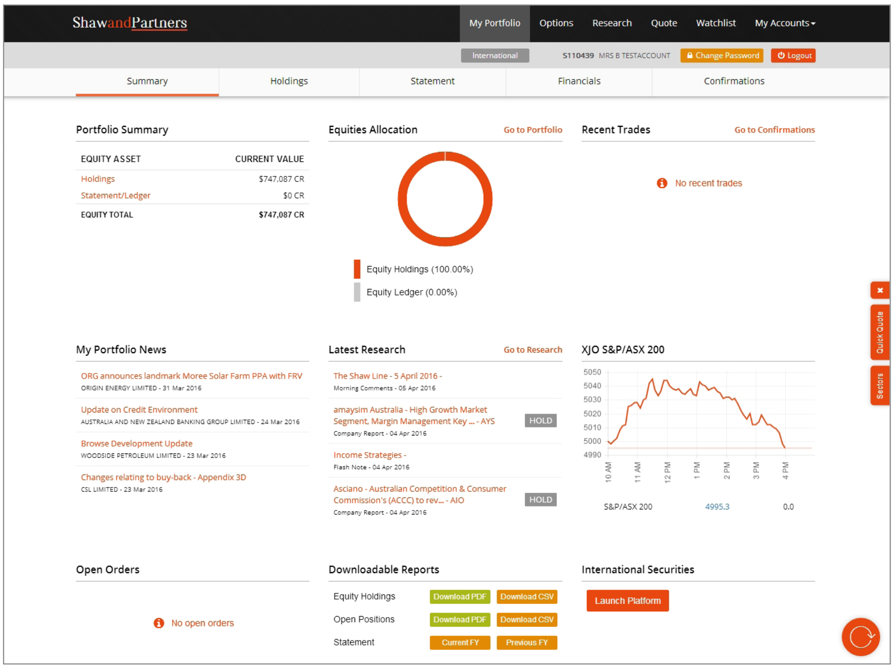

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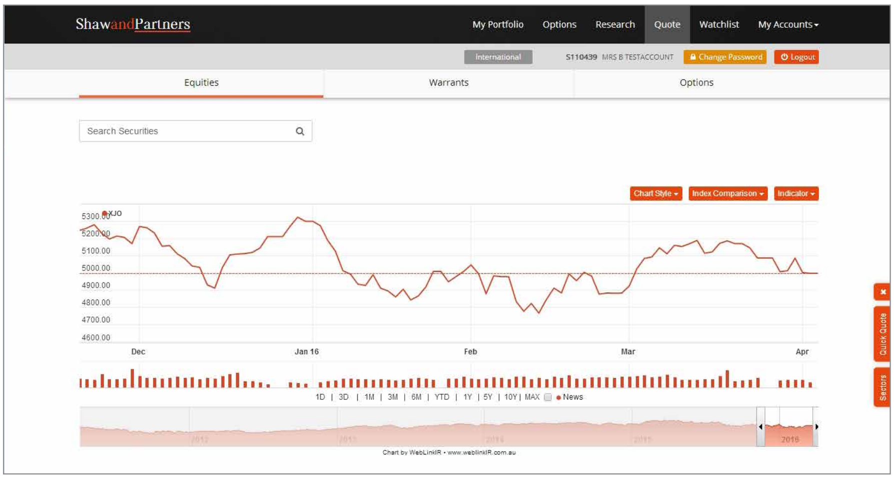

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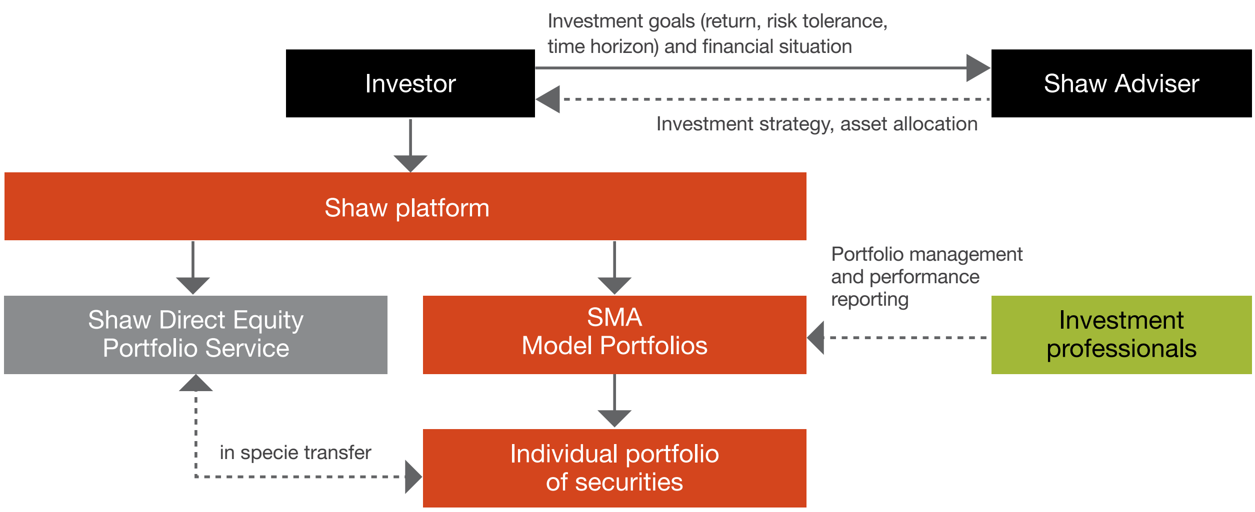

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Daily liquidity	✓	✓
Immediate application and redemption of funds	✓	✓
Low minimum investment	✓	✓
Select minimum trade size	✓	–
Netting of transactions	✓	–
In specie transfers	✓	–
Exclude specific securities from portfolio	✓	–
Tax reporting	✓	✓
Ability to download tax parcels	✓	–
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Avoid embedded CGT	✓	–
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